

DFD-7241-59

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REPLY TO:

Auditor General
Comptroller, USAF
Eastern District
Liaison Office
P.O. Box 8155, S.W. Station
Washington, D. C.

23 October 1959

SUBJECT: Assist Audit of Costs and Property
Edgerton, Germeshausen, and Grier, Inc.

Contract No. TE-2191

TO: Contracting Officer

REF: Assist Audit Requested by LOU.

1. Purpose of Examination. An examination has been made of the contractor's records to determine the propriety and reasonableness of the direct costs incurred under the subject contract during the period 1 May 1957 to 30 June 1959. In addition, tests were made to determine that property accounting procedures, as they pertain to contractor-acquired property, were being consistently adhered to.

2. Scope of Examination. Inasmuch as materiel and services costs comprised approximately 60% of the total costs incurred, the auditor directed the greater effort to this area.

(a) Direct Costs. Material charges were tested by reference to paid invoices and to receiving records where applicable. Travel expense was traced selectively to individual expense reports and compared with employee labor charges in the same period. Freight and express was examined to the extent deemed necessary by reference to paid freight and moving bills. Other direct charges were examined and found to consist solely of telephone, telegraph, and TWX costs, which were tested for accuracy and presence of proper controls. Direct labor costs were confirmed only by reference to cost ledger records and, to an extent, by comparison with travel expense charges, previous audit having established that adequate controls were employed.

DPD-7241-59

#554

Page 2

(b) Property. Contractor acquired non-expendable property examined in the cost audit was traced into accountable property records.

3. Results of Examination.

(a) Direct Costs. As a result of the examination, no costs were questioned, subject to the contracting officer's treatment of the items outlined in Paragraph 4.

(b) Property. Minor discrepancies in property records resulted from misinterpretation of what constituted expendable and non-expendable property. Buildings and fixtures are not carried on records.

The pending visit of the contracting officer's representative in Los Angeles precluded audit of GEP. However, discussion with the local property administrator indicates that weaknesses disclosed by the initial survey have not been corrected. Therefore, because supply channels have been so complex, it is recommended that lists of GEP from the various sources be furnished the audit group from time to time rather than at completion of the contract.

4. Auditor's Comments. The following relates to the auditor's acceptance, with reservation, of certain costs incurred during the period 1 May 1957 to 30 June 1959:

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DPD-7241-59

#554

Page 3

(b) Overtime. Examination of available documents disclosed that approval was not requested or secured for all overtime. The total incurred is \$8,207.12.

(c) Travel Expense. The auditor did not question approximately \$13,000 of per diem generated at the [redacted] during the six-month period ended 30 June 1959. A fixed amount, \$7.50 per day for seven days per week, is paid to upward of thirteen employees as incentive for working at the site daily, which necessitates travel of approximately one hundred miles round trip from home each day, with no mileage reimbursement. In addition, their working day is not based on portal-to-portal. In view of the circumstances prevailing in this particular phase of the operation, it is the opinion of the auditor that these "per diem" costs for a five-day working week are reasonable, also for Saturday and Sunday, but only if the employees are physically at the site. The contractor's representative informed the auditor that company policy with respect to travel was outlined in [redacted] from which the following was extracted: "...in lieu of actual expenses....a per diem allowance of \$7.50 shall be allowed at the [redacted] This operation, however, is not in the [redacted] For the information of the contracting officer, the cognizant [redacted] auditor was not available for discussion of this technicality.

5. General. Numerous minor differences were noted between cost summary furnished the auditor and cost ledger amounts on the [redacted] books. Attached is a summary of costs as they appear on the books of the [redacted] facility.

W. F. Edwards

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Audit Liaison Officer
Eastern District
Auditor General

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